

ST. CLAIR HOUSING COMMISSION

Financial Statements

December 31, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Opinion	i
Management Discussion and Analysis	ii
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Statement of Revenue, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	10
Combining Statement of Income and Expenses	11
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12
Report on Compliance Applicable to Non Major HUD Program	13
Status of Prior Audit Findings	14
Schedule of Findings and Questioned Cost	15
Finding 1) Tenant Accounting Discrepancies- Voucher Program	16

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

Board of Commissioners  
St. Clair Housing Commission  
400 South Third Street  
St. Clair, Michigan 48079

### **Independent Auditor's Opinion**

I have audited the financial statements of the St. Clair Housing Commission Business Type Activities as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair Housing Commission as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 17, 2008, on my consideration of the St. Clair Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

September 17, 2008

St. Clair Housing Commission  
400 S. Third Street  
St. Clair, MI 48079

Lorena Loren, Executive Director

As management of the St. Clair Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the St. Clair Housing Commission's financial activities for the FYE 12/31/07. This discussion and analysis letter of the St. Clair Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

#### **Overview of the Financial Statements**

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

#### **Required Financial Statements**

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities).

It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Management Discussion and Analysis, continued

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

### Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

### St. Clair Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Management Discussion and Analysis, continued

**Entity-Wide Financial Highlights:**

The following Federal Assistance was received during FYE 12/31/07:

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	93,135	67,102	26,033	38.80%
Capital Fund Program Grants	64,971	25,313	39,658	156.67%
Sec. 8 Voucher	154,201	149,003	5,198	3.49%
Total	312,307	241,418	70,889	29.36%

The subsidy for Public Housing increased due to the continued implementation of the new Operating Fund formula.

The increase in Capital Fund Grants was due to the work begun in earnest on the removal of a contaminated underground tank and the soil surrounding it. We began work on this project late in 2006 and it continued throughout 2007 and even into 2008.

The subsidy for the Sec. 8 program remained stable, increasing at only an inflationary level.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	190,122	203,557	(13,435)	-6.60%
Total Current Assets	215,104	206,031	9,073	4.40%
Fixed Assets, Net of Depreciation	648,677	658,619	(9,942)	-1.51%
Total Assets	863,781	864,650	(869)	-0.10%
Total Current Liabilities	53,304	83,417	(30,113)	-36.10%
Total Long-Term Liabilities	18,752	18,109	643	3.55%
Total Liabilities	72,056	101,526	(29,470)	-29.03%
Total Equity/Net Assets	791,725	763,124	28,601	3.75%

## Management Discussion and Analysis, continued

- Cash and Investments stayed decreased slightly, although we had no HUD receivable as of 12/31/06, while we had a HUD receivable of \$22,485 as of 12/31/07. Had we requisitioned this money before 12/31/07 as we were entitled to do, our cash and investments balances would be greater than the 2006 levels.
- Total Current Assets, which is comprised primarily of Cash and Investments, did increase over 2006 levels.
- Fixed Assets increased by \$59,724. Although Fixed Assets increased by \$59,724, this was more than offset by depreciation/equipment disposal charges, resulting in the net decrease stated in the above table.
- Total Assets remained flat.
- Total Current Liabilities decreased. As of 12/31/06 we had a substantial amount of deferred revenue in our Capital Fund Program - we requisitioned quite a bit of money in December 2006, but the offsetting expenditures were not paid until sometime in 2007. In contrast, as of 12/31/07 we had money due to us from our Capital Fund Program, so there was no corresponding deferred revenue as of 12/31/07. All other current liabilities remained relatively stable.
- Total Long-Term Liabilities consist solely of the presumed long-term portion of Compensated Absences. This category increased because we had an increase in that liability.
- Total Liabilities decreased overall due to the discussions above.
- Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the decrease in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure increased due to the Operating Income generated by the Public Housing Program for FYE 12/31/07. There was also an increase in the Equity section for Section 8 due to the HUD-issued accounting changes in the Section 8 Housing Choice Voucher program (PIH Notice #2006-3).



Management Discussion and Analysis, continued

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
<b>Revenues :</b>				
Tenant Revenue	198,311	195,409	2,902	1.5%
Other Revenue	11,952	11,156	796	7.1%
Total PHA generated Revenue	210,263	206,565	3,698	1.8%
Operating Subsidies/Soft Cost Grant Revenue	247,336	217,348	29,988	13.8%
Capital Grants (Hard costs)	64,971	24,070	40,901	169.9%
<b>Total Revenue</b>	<b>522,570</b>	<b>447,983</b>	<b>74,587</b>	<b>16.6%</b>
<b>Expenses :</b>				
Administrative	96,938	96,480	458	0.5%
Tenant Services	1,458		1,458	
Utilities	68,350	59,245	9,105	15.4%
Maintenance	115,333	100,835	14,498	14.4%
General	10,054	10,199	(145)	-1.4%
Protective Services	1,330	761	569	74.8%
Housing Assistance Payments	125,765	127,159	(1,394)	-1.1%
Depreciation	74,741	74,047	694	0.9%
Total Expenses	493,969	468,726	25,243	5.4%
<b>Net Increase (Decrease)</b>	<b>28,601</b>	<b>(20,743)</b>		

*Revenues :*

St. Clair Housing Commission's primary revenue sources are subsidies and grants received by HUD. Revenue received from HUD in FYE 12/31/07 for Public Housing and for Sec. 8 increased overall from FYE 12/31/06 to 12/31/07. For FYE 12/31/07, revenue generated by the Commission accounted for \$210,263 (or 40% of total revenue), while HUD contributions accounted for \$312,307 (or 60% of total revenue).

*Expenses :*

Total Expenses for FYE 12/31/07 were \$493,969 while for FYE 12/31/06 the total was \$468,726. This represents a 5.4% increase in our Operating Costs. The cost areas that increased the most were:

Management Discussion and Analysis, continued

	<u>FYE</u> <u>12/31/07</u>	<u>FYE</u> <u>12/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Tenant Services	1,458	0	1,458	
Water	7,144	6,310	834	13.2%
Electricity	27,401	25,140	2,261	9.0%
Gas	33,805	27,795	6,010	21.6%
Maintenance Materials	21,194	15,051	6,143	40.8%
Maintenance Contract Costs	27,280	17,303	9,977	57.7%
Protective Services	1,330	761	569	74.8%

- Tenant Services: after several years of not being able to afford much in the way of tenant services, we decided that we were in a position financially now to provide some small services to our tenants. A large portion of this expenditure was to purchase a computer for the tenants to use.
- Water increased due to increased use.
- Electricity also increased proportionally in both consumption and dollars.
- Gas consumption increased by just 6% (and it was the beginning of a cold winter), but the increase in the dollar amount is primarily attributable to increased rates.
- Maintenance materials increased. As the building continues to age we are finding our maintenance costs increasing. We had problems with plumbing leaks during 2007 and had to purchase and install new tub surrounds and tile. This was necessary not only in vacated apartments being prepped for turnover, but in occupied units as well.
- Maintenance contract costs increased in several areas: Outside contractor repairs such as HVAC, Electrical, and Plumbing repairs increased; we had a major boiler repair which accounted for \$3,200; we had some elevator repairs that account for another \$1,000; we had increased cell phone costs of approximately \$1,500. The balance of the increase is due to both inflation and increased unit turnovers.
- Protective Services increased. We have little call for security services, but the Offshore Boat Races that are held across the street from our property in the summer called for security this year due to the crowds. Also, given the ongoing contaminated soil site, it seemed prudent to make sure that no one from these crowds accidentally wandered in to the site.

*Budget Analysis:*

A Low Rent Public Housing Operating Budget for FYE 12/31/07 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

## Management Discussion and Analysis, continued

### **Entity-Wide Operational Highlights:**

The St. Clair Housing Commission provided the following housing for low-income elderly and low-income families:

	FYE 12/31/07	FYE 12/31/06
Public Housing	62	62
Sec. 8 Voucher	30	30

During FYE 12/31/07, St. Clair Housing Commission maintained a lease-up rate of 99.1% in its Public Housing Program and a lease-up rate of 100% in its Section 8 program. These lease-up rates are well in excess of HUD guidelines.

During FYE 12/31/06, our Capital Fund Program work project began with the discovery of contaminated ground soil to due the neglect of underground storage tanks. This was also the only Capital Fund work project during FYE 12/31/07. During 2006, our costs were mainly engineering, testing and consulting costs, along with the actual removal of the tanks. During 2007, this work continued. This project is ongoing, as the soil has to be re-tested every few weeks, and as more contaminated soil is discovered, more remedial work to correct the situation must proceed.

### **Economic Factors and Next Year's Budget and Rates**

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that, in the short term, we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

### **Request for Information**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Lorena Loren, Executive Director  
St. Clair Housing Commission  
400 S. Third Street  
St. Clair, MI 48079

ST. CLAIR HOUSING COMMISSION  
Statement of Net Assets  
December 31, 2007

**ASSETS**

**C-3068**

CURRENT ASSETS

Cash	\$	171,958	
Cash-Restricted		<u>18,164</u>	\$ 190,122
Accounts Receivable-HUD			22,485
Prepaid Expenses & Other Assets			<u>2,497</u>
Total Current Assets			\$ 206,031

NON CURRENT ASSETS

Land	\$	30,000	
Buildings & Improvements		898,980	
Furniture, Equipment- Dwellings		39,417	
Furniture, Equipment- Administrative		24,727	
Leasehold Improvements		866,959	
Accumulated Depreciation		<u>(1,211,406)</u>	
Total Non Current Assets			<u>648,677</u>

TOTAL ASSETS \$ 863,781

ST. CLAIR HOUSING COMMISSION  
Statement of Net Assets  
December 31, 2007

LIABILITIES & NET ASSETS

C-3068

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	6,470	
Accrued Wages & Payroll Taxes		17,467	
Accrued Compensated Absences		2,083	
Tenants Security Deposit		15,790	
Other Current Liabilities		<u>11,494</u>	
<u>Total Current Liabilities</u>	\$		53,304

NONCURRENT LIABILITIES

Accrued Compensated Absences		<u>18,752</u>	
<u>Total Liabilities</u>	\$		72,056

NET ASSETS:

Investment in Fixed Assets net of Related Debt	\$	648,677	
Restricted Net Assets		18,164	
Unrestricted Net Assets		<u>124,884</u>	
<u>Total Net Assets</u>			<u>791,725</u>

<u>TOTAL LIABILITIES &amp; NET ASSETS</u>	\$	<u>863,781</u>
---	----	----------------

The Accompanying Footnotes are an Integral Part of the Financial Statements

ST. CLAIR HOUSING COMMISSION  
Combined Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended December 31, 2007

OPERATING REVENUE

Tenant Rental Revenue	\$ 194,154	
Tenant Revenue-Other	4,157	
HUD Grants	247,336	
Interest Income	7,588	
Other Income	<u>4,364</u>	
<u>Total Operating Revenue</u>		\$ 457,599

OPERATING EXPENSES

Administrative	\$ 96,938	
Tenant Services	1,458	
Utility Expenses	68,350	
Ordinary Maintenance	115,333	
Protective Services	1,330	
General Expenses	10,054	
Housing Assistance Payments	125,765	
Depreciation Expenses	<u>74,741</u>	
<u>Total Operating Expenses</u>		<u>493,969</u>
<u>Operating Income (Loss)</u>		\$ (36,370)

CAPITAL CONTRIBUTIONS

		<u>64,971</u>
<u>Changes in Net Assets</u>		\$ 28,601
Total Net Assets- Beginning		<u>763,124</u>
Total Net Assets- Ending		\$ <u>791,725</u>

The Accompanying Notes are an Integral part of the Financial Statements

ST. CLAIR HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended December 31, 2007

Business Type Activities

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$ 198,311
Payments to Suppliers	(375,395)
Payments to Employees	(95,639)
HUD Grants	247,336
Other Receipts (Payments)	<u>11,952</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>(13,435)</u>

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	\$ (64,971)
Contributed Capital	<u>64,971</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ <u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (13,435)
Cash & Cash Equivalents-Beginning	<u>203,557</u>
Cash & Cash Equivalents-Ending	\$ <u>190,122</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Net Profit or (Loss)	\$ (36,370)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	74,741
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(21,477)
Prepaid Expenses	(23)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	3,088
Accrued Compensated Absences	714
Security Deposits	979
Deferred Revenue	(37,365)
Other Liabilities	<u>2,278</u>
Net Cash Provided by Operating Activities	\$ <u>(13,435)</u>

The Accompanying Notes are an Integral part of the Financial Statements

ST. CLAIR HOUSING COMMISSION  
Notes to Financial Statements  
December 31, 2007

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

St. Clair Housing Commission, St. Clair, Michigan, (Commission) was created by ordinance of the city of St. Clair. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 59-1	Low rent program	62 units
MI 28-E052	Section 8 Existing	30 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.



## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided that they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### Assets, Liabilities, and Net Assets-

#### Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 2,960
Savings Accounts	187,062
Petty Cash	<u>100</u>
Financial Statement Total	<u>\$ 190,122</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 2,960	\$	\$	\$ 2,960	\$ 2,960
Petty Cash	100			100	100
Money Market	<u>187,062</u>			<u>187,062</u>	<u>187,062</u>
Total Cash	<u>\$ 190,122</u>	<u>\$</u>	<u>\$</u>	<u>\$ 190,122</u>	<u>\$ 190,122</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 30,000	\$	\$	\$ 30,000
Buildings	898,980			898,980
Furniture & Equipment-Dwellings	39,417			39,417
Furniture & Equipment-Admin	29,973		5,246	24,727
Leasehold Improvements	<u>801,988</u>	<u>64,971</u>		<u>866,959</u>
	\$ 1,800,358	\$ 64,971	\$ 5,246	\$ 1,860,083
Less Accumulated Depreciation	<u>1,141,740</u>	<u>74,741</u>	<u>5,075</u>	<u>1,211,406</u>
	<u>\$ 658,618</u>	<u>\$ (9,770)</u>	<u>\$ 171</u>	<u>\$ 648,677</u>

Note 4: Accrued Liabilities.

Accrued liabilities consists of the following:

Accrued Utilities Payable	<u>\$ 11,494</u>
---------------------------	------------------

## Notes to Financial Statements- continued

### Note 5: Pension Plan

The Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all full time employees and requires a minimum contributions by the employee. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

### Note 6 :Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,351,200
General Liability	1,000,000
Dishonest Employees	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

### Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

### Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

## St. Clair Housing Commission

31-Dec-07

MI052

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>ASSETS:</b>				
	<b>CURRENT ASSETS:</b>				
	Cash:				
111	Cash - unrestricted	141,580	14,588	-	156,168
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted		18,164		18,164
114	Cash - tenant security deposits	15,790			15,790
100	Total cash	157,370	32,752	-	190,122
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	-	22,485	22,485
125	Accounts receivable - miscellaneous				-
126	Accounts receivable- tenants - dwelling rents	-			-
126.1	Allowance for doubtful accounts - dwelling rents				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable	-			-
120	Total receivables, net of allowances for doubtful accounts	-	-	22,485	22,485
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	2,497			2,497
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	35,285	-	-	35,285
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	195,152	32,752	22,485	250,389
	<b>NONCURRENT ASSETS:</b>				
	Fixed assets:				
161	Land	30,000			30,000
162	Buildings	898,980			898,980
163	Furniture, equipment & machinery - dwellings	39,417	-	-	39,417
164	Furniture, equipment & machinery - administrative	24,727	-	-	24,727
165	Leasehold improvements	777,917	-	89,042	866,959
166	Accumulated depreciation	(1,210,651)	-	(755)	(1,211,406)
160	Total fixed assets, net of accumulated depreciation	560,390	-	88,287	648,677
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	560,390	-	88,287	648,677
190	<b>TOTAL ASSETS</b>	755,542	32,752	110,772	899,066

	<b>LIABILITIES AND EQUITY:</b>				
	<b>LIABILITIES:</b>				
	<b>CURRENT LIABILITIES</b>				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	6,270	200		6,470
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	17,467	-		17,467
322	Accrued compensated absences	2,083			2,083
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	15,790			15,790
342	Deferred revenues	-	-	-	-
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	11,494	-		11,494
346	Accrued liabilities - other	-	-		-
347	Inter-program - due to	-	12,800	22,485	35,285
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>53,104</b>	<b>13,000</b>	<b>22,485</b>	<b>88,589</b>
	<b>NONCURRENT LIABILITIES:</b>				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	18,752			18,752
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>18,752</b>	<b>-</b>	<b>-</b>	<b>18,752</b>
300	<b>TOTAL LIABILITIES</b>	<b>71,856</b>	<b>13,000</b>	<b>22,485</b>	<b>107,341</b>
	<b>EQUITY:</b>				
501	Investment in general fixed assets				-
	<b>Contributed Capital:</b>				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	560,390	-	88,287	648,677
	<b>Reserved fund balance:</b>				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
511.1	Restricted Net Assets		18,164		18,164
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	123,296	1,588		124,884
513	<b>TOTAL EQUITY</b>	<b>683,686</b>	<b>19,752</b>	<b>88,287</b>	<b>791,725</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>755,542</b>	<b>32,752</b>	<b>110,772</b>	<b>899,066</b>

- - - -

## St. Clair Housing Commission

31-Dec-07

MI052

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	<b>REVENUE:</b>	-	-		
703	Net tenant rental revenue	194,154	-		194,154
704	Tenant revenue - other	4,157			4,157
705	Total tenant revenue	198,311	-	-	198,311
706	HUD PHA grants	93,135	154,201	64,971	312,307
708	Other government grants				-
711	Investment income - unrestricted	6,511	1,077	-	7,588
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	4,535	-	-	4,535
716	Gain or loss on the sale of fixed assets	(171)			(171)
720	Investment income - restrictec				-
700	<b>TOTAL REVENUE</b>	302,321	155,278	64,971	522,570
	<b>EXPENSES:</b>				
	Administrative				
911	Administrative salaries	38,756	9,500	-	48,256
912	Auditing fees	4,150	-		4,150
913	Outside management fees				-
914	Compensated absences	715			715
915	Employee benefit contributions- administrative	25,014	3,300	-	28,314
916	Other operating- administrative	14,703	800	-	15,503
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	1,458			1,458
	Utilities				
931	Water	7,144			7,144
932	Electricity	27,401			27,401
933	Gas	33,805			33,805
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	47,383			47,383
942	Ordinary maintenance and operations - materials & other	21,194		-	21,194
943	Ordinary maintenance and operations - contract costs	25,155	2,125	-	27,280
945	Employee benefit contributions- ordinary maintenance	19,476			19,476
	Protective services				

[illegible]



ST. CLAIR HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards*  
December 31, 2007

I have audited the financial statements of the St. Clair Housing Commission of St. Clair, Michigan, as of and for the year ended December 31, 2007, and have issued my report thereon dated September 17, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the St. Clair Housing Commission's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs.

This report is intended solely for the information of management, Board of Commissioners, and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant  
Hemlock, Michigan  
September 17, 2008

ST. CLAIR HOUSING COMMISSION  
Status of Prior Audit Findings  
December 31, 2007

The prior audit of the St. Clair Housing Commission for the period ended December 31, 2006, did not contain audit findings.

ST. CLAIR HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
December 31, 2007

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Housing Assistance Program		X
Capital Fund Projects		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted \_\_\_\_\_ Yes   X   No

Control Deficiency (ies) noted \_\_\_\_\_ Yes   X   No

Non Compliance material to financial statements noted \_\_\_\_\_ Yes   X   No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted \_\_\_\_\_ Yes   X   No

Control Deficiency (ies) noted   X   Yes \_\_\_\_\_ No

Non Compliance material to financial statements noted \_\_\_\_\_ Yes   X   No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	None
Housing Assistance Program	No	None	7-1
Capital Fund Project	No	None	None

ST. CLAIR HOUSING COMMISSION  
Findings, Recommendations and Replies  
December 31, 2007

The following finding of the St. Clair Housing Commission, for the year ended December 31, 2007, were discussed with the Executive Director, Ms. Lorena Loren, in an exit interview conducted June 27, 2008.

Finding 7-1: Housing Choice Voucher Tenant Accounting Discrepancies

Criteria-

The Commission must follow HUD regulations concerning eligibility and continued occupancy.

Condition-

5 files were tested, none contained the notification for Violence Against Woman's Act (VAWA), 2 of the 5 files require changes- one used the wrong payment standard, the other had the wrong utility allowance.

Questioned Cost-

None

Effect-

The Commission has not followed prescribed HUD procedures concerning VAWA and recertification of tenant files.

Cause-

Oversight.

Recommendation

The Commission needs to include all notifications in the tenant files including VAWA.

The errors noted required 2 of 5 files be re-examined; this is small sample and revealed a 40% error rate; I recommend the Commission implement a system to insure the re-examinations are done correctly.

Reply

I am currently working on implementing the "Violence Against Woman's Act." I understand that I have each participant sign and date an affidavit stating that they received a copy of the Act and understand the intention of this act. I also understand that this information must be kept in each participants file, whether they are in Public Housing or on the Housing Choice Voucher Program.

I understand that we used the wrong Payment Standard and wrong utility allowance in our Section 8 Housing Choice Voucher Program participant's files. When these file are overseen, I need to be more diligent in checking these files. Also, I need to spend more time when going over these files to ensure that these files are calculated correctly.